

**REPORT OF THE AUDIT OF THE  
JOHNSON COUNTY  
FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2001**



**EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS  
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**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE**  
**JOHNSON COUNTY FISCAL COURT**

**For The Fiscal Year Ended**  
**June 30, 2001**

The Auditor of Public Accounts has completed the Johnson County Fiscal Court audit for fiscal year ended June 30, 2001. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

**Financial Condition:**

Fund balances decreased by \$374,585 from the prior fiscal year, resulting in a cash surplus of \$1,525,352 as of June 30, 2001. Revenues decreased by \$694,006 from the prior year and disbursements increased by \$555,005.

**Debt Obligations:**

Total long term debt principal as of June 30, 2001, was \$1,359,702. Future collections of \$1,780,188 are needed over the next 28 years to pay all bonded debt principal and interest.

Capital lease principal agreements totaled \$59,000 as of June 30, 2001.

**Report Comments:**

- The County Treasurer Did Not Present Her Settlement To The Fiscal Court Within Thirty Days
- The Fiscal Court Should Properly Record All Financial Transactions To The Ledgers
- The Fiscal Court Should Have A Written Securities Agreement With Current Banking Institution
- The Fiscal Court Should Record The Approved Budget And Budget Amendments Accurately On The 4<sup>th</sup> Quarter Report
- The Fiscal Court Should Have Budgeted The Road And Bridge FEMA Fund Before Expending Funds
- Lacks Adequate Segregation Of Duties

**Deposits:**

The fiscal court's deposits were insured and collateralized by bank securities or bonds.



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**EDWARD B. HATCHETT, JR.**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Roger T. Daniel, Johnson County Judge/Executive

Members of the Johnson County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and fund balances arising from cash transactions of Johnson County, Kentucky, as of June 30, 2001, and the related statement of cash receipts, cash disbursements, and changes in cash balances for the year then ended. These financial statements are the responsibility of the Johnson County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Johnson County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The modified cash basis accounting system does not require an entity to maintain a general fixed asset group or a general long-term debt group of accounts.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and fund balances arising primarily from cash transactions as of June 30, 2001, of Johnson County, Kentucky, and the revenues received and expenditures paid for the year then ended, in conformity with the modified cash basis of accounting.



To the People of Kentucky  
Honorable Paul E. Patton, Governor  
T. Kevin Flanery, Secretary  
Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
Honorable Roger T. Daniel, Johnson County Judge/Executive  
Members of the Johnson County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated August 23, 2002, on our consideration of Johnson County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Johnson County, Kentucky. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discuss the following report comments:

- The County Treasurer Did Not Present Her Settlement To The Fiscal Court Within Thirty Days
- The Fiscal Court Should Properly Record All Financial Transactions To The Ledgers
- The Fiscal Court Should Have A Written Securities Agreement With Current Banking Institution
- The Fiscal Court Should Record The Approved Budget And Budget Amendments Accurately On The 4<sup>th</sup> Quarter Report
- The Fiscal Court Should Have Budgeted The Road And Bridge FEMA Fund Before Expending Funds
- Lacks Adequate Segregation Of Duties

Respectfully submitted,



Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
August 23, 2002



JOHNSON COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2001

**Fiscal Court Members:**

Roger T. Daniel	County Judge/Executive
Connie Lynn Allen	Commissioner
Chuck Miller	Commissioner
Mike Adams	Commissioner

**Other Elected Officials:**

Scott Preston	County Attorney
B. Joe Hill	Jailer
Betty Jo Conley	County Clerk
Vicki Rice	Circuit Court Clerk
William D. Witten	Sheriff
Michael Stafford	Property Valuation Administrator
J.R. Frisby	Coroner

**Appointed Personnel:**

Adaline Stambaugh	County Treasurer
Valarie Meade	Occupational Tax Collector
Betty Picklesimer	Finance Officer



STATEMENT OF ASSETS, LIABILITIES,  
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS



JOHNSON COUNTY  
STATEMENT OF ASSETS, LIABILITIES,  
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

June 30, 2001

Assets and Other Resources

Assets

General Fund Type

General Fund:

Cash	\$ 1,039,333
------	--------------

Road and Bridge Fund:

Cash	51,421
------	--------

Jail Fund:

Cash	30,566
------	--------

Local Government Economic Assistance Fund:

Cash	97,803
------	--------

Payroll Revolving Account - Cash

272

Special Revenue Fund Type

Industrial Authority #1 Fund:

Cash	175,381
------	---------

Special Insurance Fund:

Cash	49,569
------	--------

Mountain Homeplace Economic  
Development Project Fund:

Cash	27,021
------	--------

Industrial Authority #2 Fund:

Cash	10,431
------	--------

Debt Service Fund Type

Public Properties Courthouse Corporation

Bond Sinking Fund:

Cash	43,827
------	--------

Other Resources

General Fund Type

General Fund:

Amounts to be Provided in Future Years For -  
Kentucky Association of Counties Leasing

Trust Agreement (Note 5)

\$ 86,000

Kentucky Infrastructure Authority (Note 3C)

119,007

205,007

The accompanying notes are an integral part of the financial statements.

JOHNSON COUNTY  
STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES  
ARISING FROM CASH TRANSACTIONS  
June 30, 2001  
(Continued)

Assets and Other Resources (Continued)

General Fund Type (Continued)

Road and Bridge Fund:

Amounts to be Provided in Future Years for Lease Payments (Note 4)	\$ 59,000
--	-----------

Jail Fund:

Amounts to be Provided in Future Years for Jail Participation	
---	--

Agreement Obligations

Bond Principal Payments (Note 3A)	\$ 580,985
-----------------------------------	------------

Supplemental Loan (Note 3B)	183,266	764,251
-----------------------------	---------	---------

Debt Service Fund Type

Public Properties Courthouse Corporation Bond Sinking Fund:

Amounts to be Provided in Future Years for Note Payments	432,617
--	---------

Total Assets and Other Resources	<u>\$ 2,986,499</u>
----------------------------------	---------------------

Liabilities and Fund Balances

Liabilities

General Fund Type

General Fund:

Kentucky Association of Counties Leasing	
--	--

Trust Agreement (Note 5)	\$ 86,000
--------------------------	-----------

Kentucky Infrastructure Authority (Note 3C)	119,007
---	---------

Road and Bridge Fund:

Kentucky Association of Counties Leasing	
--	--

Trust Agreement (Note 4)	59,000
--------------------------	--------

Jail Fund:

Bond Principal (Note 3A)	580,985
--------------------------	---------

Supplemental Loan (Note 3B)	183,266
-----------------------------	---------

Payroll Revolving Account	272
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The accompanying notes are an integral part of the financial statements.

JOHNSON COUNTY  
 STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES  
 ARISING FROM CASH TRANSACTIONS  
 June 30, 2001  
 (Continued)

Liabilities and Fund Balances (Continued)

Liabilities (Continued)

Debt Service Fund Type

Public Properties Courthouse Corporation

Bond Sinking Fund:

Notes Not Matured (Note 3D) \$ 476,444

Fund Balances

Reserved:

Special Revenue Fund Type

Industrial Authority #1 Fund 175,381

Special Insurance Fund 49,569

Mountain Homeplace Economic  
Development Project Fund 27,021

Industrial Authority #2 Fund 10,431

Unreserved:

General Fund Type

General Fund 1,039,333

Road and Bridge Fund 51,421

Jail Fund 30,566

Local Government Economic Assistance Fund 97,803

Total Liabilities and Fund Balances \$ 2,986,499

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH RECEIPTS,  
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

JOHNSON COUNTY  
STATEMENT OF CASH RECEIPTS,  
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

For The Fiscal Year Ended June 30, 2001

	General Fund Type			
	Totals (Memorandum Only)	General Fund	Road and Bridge Fund	Jail Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 3,673,370	\$ 2,431,354	\$ 693,288	\$ 189,043
Other Financing Sources:				
Borrowed Money	124,583	124,583		
Transfers In	420,000		160,667	255,000
Total Cash Receipts	\$ 4,217,953	\$ 2,555,937	\$ 853,955	\$ 444,043
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 3,951,727	\$ 1,887,032	\$ 1,084,896	\$ 385,706
Other Financing Uses:				
Schedule of Unbudgeted Expenditures	67,557			
Transfers Out	420,000	355,000		
Principal Paid:				
Bonds	19,000	19,000		
Borrowed Money	5,576	5,576		
Jail Participation Agreement	25,382			25,382
Jail Participation Agreement-Supplemental	7,296			7,296
KACO Lease Agreements	91,000		91,000	
Thelma Waste Agreement	5,000	5,000		
Total Cash Disbursements	\$ 4,592,538	\$ 2,271,608	\$ 1,175,896	\$ 418,384
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ (374,585)	\$ 284,329	\$ (321,941)	\$ 25,659
Cash Balance - July 1, 2000 *	1,899,937	755,004	373,362	4,907
		*	*	
Cash Balance - June 30, 2001	\$ 1,525,352	\$ 1,039,333	\$ 51,421	\$ 30,566

\* Includes adjustments to the following funds for voided checks: General Fund - \$1,981; Road and Bridge Fund - \$5,557; and LGEA Fund - \$154. Road & Bridge FEMA Fund was adjusted for a \$1 rounding error.

The accompanying notes are an integral part of the financial statements.

JOHNSON COUNTY  
 STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
 CHANGES IN CASH BALANCES  
 For The Fiscal Year Ended June 30, 2001  
 (Continued)

General Fund Type	Special Revenue Fund Type				
Local Government Economic Assistance Fund	Industrial Authority #1 Fund	Special Insurance Fund	Road and Bridge FEMA Fund	Mountain Homeplace Economic Development Project Fund	Industrial Authority #2 Fund
\$ 314,557	\$ 19,202	\$ 1,136	\$ 1,327	\$ 14,867	\$ 6,174
					4,333
<u>\$ 314,557</u>	<u>\$ 19,202</u>	<u>\$ 1,136</u>	<u>\$ 1,327</u>	<u>\$ 14,867</u>	<u>\$ 10,507</u>
 \$ 310,846	 \$	 \$	 \$	 \$ 283,171	 \$ 76
	4,333		67,557 60,667		
 <u>\$ 310,846</u>	 <u>\$ 4,333</u>	 <u>\$</u>	 <u>\$ 128,224</u>	 <u>\$ 283,171</u>	 <u>\$ 76</u>
 \$ 3,711 94,092 *	 \$ 14,869 160,512	 \$ 1,136 48,433	 \$ (126,897) 126,897 *	 \$ (268,304) 295,325	 \$ 10,431
<u>\$ 97,803</u>	<u>\$ 175,381</u>	<u>\$ 49,569</u>	<u>\$ 0</u>	<u>\$ 27,021</u>	<u>\$ 10,431</u>

The accompanying notes are an integral part of the financial statements.

JOHNSON COUNTY  
 STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
 CHANGES IN CASH BALANCES  
 For The Fiscal Year Ended June 30, 2001  
 (Continued)

	Debt Service Fund Type
	Public Properties Courthouse Corporation Bond Sinking Fund
<u>Cash Receipts</u>	
Schedule of Operating Revenue	\$ 2,422
Other Financing Sources:	
Borrowed Money	
Transfers In	
Total Cash Receipts	\$ 2,422
<u>Cash Disbursements</u>	
Comparative Schedule of Final Budget and Budgeted Expenditures	\$
Other Financing Uses:	
Schedule of Unbudgeted Expenditures	
Transfers Out	
Principal Paid:	
Bonds	
Borrowed Money	
Jail Participation Agreement	
Jail Participation Agreement-Supplemental	
KACO Lease Agreements	
Thelma Waste Agreement	
Total Cash Disbursements	\$
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ 2,422
Cash Balance - July 1, 2000 *	41,405
Cash Balance - June 30, 2001	\$ 43,827

JOHNSON COUNTY  
NOTES TO FINANCIAL STATEMENTS

June 30, 2001

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Johnson County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the criteria stated in GASB 14, management has included the Public Properties Courthouse Corporation as part of the reporting entity.

The Public Properties Courthouse Corporation (the Corporation) is a legally separate entity established to provide long-term debt service for the Fiscal Court. The Corporation's governing body consists entirely of Fiscal Court members. Therefore management must include the Corporation as a component unit, and the Corporation's financial activity has been blended with that of the Fiscal Court.

Additional - Johnson County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Johnson County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Johnson County Fiscal Court's Fund Types, a definition of each, and county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Johnson County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, and Local Government Economic Assistance Fund.

JOHNSON COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2001  
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

2) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The Johnson County Special Revenue Fund Type includes the following county funds: The Industrial Authority #1 Fund, Special Insurance Fund, Road and Bridge FEMA Fund, Mountain Homeplace Economic Development Project Fund, and the Industrial Authority #2 Fund.

3) Debt Service Fund Type

Debt Service Fund Type accounts for the accumulation of resources for the payment of general long-term debt principal and interest and includes funds for the Public Properties Courthouse Corporation Bond Sinking Fund. Debt service is provided through annual transfers from the General Fund Type in the amount of the debt service requirements for the year.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received, except for the recording of long-term receivables and deferred revenue. Expenditures are recognized when paid, except for the recording of long-term obligations and amounts to be provided in future years.

D. Legal Compliance - Budget

The Johnson County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

JOHNSON COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2001  
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost. Investments may include certificates of deposit on the financial statements; however, for the purpose of disclosing credit risk (Note 3), investments exclude certificates of deposit.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following is considered a related organization of Johnson County Fiscal Court: The Industrial Development Board.

G. Jointly Governed Organizations

A jointly governed organization is an entity that results from a multigovernmental arrangement that is governed by representatives from each participating government. The entity provides services to the citizens of each participating government, but there is no ongoing financial interest or responsibility by the participating governments. The jointly governed organization can act independently of each of the participating governments. The Big Sandy Regional Jail meets the criteria noted above and is an organization jointly governed by several Kentucky counties.

JOHNSON COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2001  
(Continued)

Note 2. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The depository institution has pledged or provided sufficient collateral, and the depository institution's board of directors or loan committee approved the pledge or provision. However, during the fiscal year the original depository institution changed ownership and a new depository institution was established. The county did not sign a new written agreement with the new depository institution to secure the county's interest in the collateral.

Note 3. Long-Term Debt

A. Long-Term Participation Agreement

On March 20, 1987, the Kentucky Local Correctional Facilities Construction Authority, an independent corporate agency and instrumentality of the Commonwealth of Kentucky, issued revenue bonds for the purpose of construction and reconstruction of jail facilities. The Authority issued \$1,950,640 of revenue bonds at 2.43% interest for 28 years, of which the county has agreed to pay \$815,245 principal and a proportional share of interest on the issue. As of June 30, 2001, the principal amount outstanding is \$580,985. Bond payments for the remaining years are:

<u>Due Date</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
June 30, 2002	\$ 35,984	\$ 26,991
June 30, 2003	34,218	28,703
June 30, 2004	32,341	30,523
June 30, 2005	30,344	32,459
June 30, 2006	28,220	34,517
Thereafter	133,127	427,792
Total	<u>\$ 294,234</u>	<u>\$ 580,985</u>



JOHNSON COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2001  
(Continued)

Note 3. Long Term Debt (Continued)

B. Supplemental Loan

On November 24, 1987, the Kentucky Local Correctional Facilities Construction Authority also made a supplemental loan of \$247,000 at 7.5% interest for 28 years to the county. As of June 30, 2001, the principal amount outstanding is \$183,266. Principal payments for the remaining years are:

<u>Due Date</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
June 30, 2002	\$ 13,451	\$ 7,843
June 30, 2003	12,840	8,432
June 30, 2004	12,184	9,064
June 30, 2005	11,479	9,744
June 30, 2006	11,114	10,474
Thereafter	51,029	137,709
Total	<u>\$ 112,097</u>	<u>\$ 183,266</u>

C. Solid Waste Revolving Loan Fund

On April 10, 2000, Johnson County entered into a loan agreement with the Kentucky Infrastructure Authority to close the Van Lear Landfill. The Authority loaned the County \$124,583 at an interest rate of 2.30% over 10 years. As of June 30, 2001, the principal amount outstanding is \$119,007. Principal payments for the remaining years are:

<u>Due Date</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
June 30, 2002	\$ 2,672	\$ 11,345
June 30, 2003	2,410	11,607
June 30, 2004	2,142	11,876
June 30, 2005	1,867	12,150
June 30, 2006	1,585	12,431
Thereafter	3,479	59,598
Total	<u>\$ 14,155</u>	<u>\$ 119,007</u>

JOHNSON COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2001  
(Continued)

Note 3. Long Term Debt (Continued)

D. Public Properties Courthouse Corporation Liabilities

The County is liable for a \$685,000 note by the Public Properties Courthouse Corporation with a current interest rate of 7.375% for 28 years. This note was originally made with Farmer's Home Administration on January 1, 1987, and subsequently sold to General Electric Credit Corporation. As of June 30, 2001, the principal amount outstanding is \$476,444. Principal payments for the remaining years are:

<u>Due Date</u>	<u>Scheduled Principal</u>
June 30, 2002	\$ 23,000
June 30, 2003	25,000
June 30, 2004	27,000
June 30, 2005	29,000
June 30, 2006	31,000
Thereafter	<u>341,444</u>
Total	<u>\$ 476,444</u>

Note 4. Capital Leases

On July 14, 1992, Johnson County entered into a lease agreement with Kentucky Association of Counties Leasing Trust Program for road improvements. The agreement requires variable monthly payments for 120 months to be paid in full July 20, 2002. The principal balance of the agreement is \$59,000 as of June 30, 2001. The lease payment for the remaining year is:

<u>Due Date</u>	<u>Scheduled Principal</u>
June 30, 2002	<u>\$ 59,000</u>
Total	<u>\$ 59,000</u>

JOHNSON COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2001  
(Continued)

Note 5. Lease-Purchase Agreement

The county has entered into the following lease-purchase agreement with the Kentucky Association of Counties Leasing Trust Program:

<u>Description</u>	<u>Purchase Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Amount</u>
Waste Control	December 13, 1993	December 20, 2013	variable	\$ 86,000

Note 6. Insurance

For the fiscal year ended June 30, 2001, Johnson County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

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COMPARATIVE SCHEDULE OF  
BUDGETED TO ACTUAL OPERATING REVENUE



JOHNSON COUNTY  
COMPARATIVE SCHEDULE OF  
BUDGETED TO ACTUAL OPERATING REVENUE

For The Fiscal Year Ended June 30, 2001

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Type</u>			
General Fund	\$ 2,919,765	\$ 2,431,354	\$ (488,411)
Road and Bridge Fund	1,435,376	693,288	(742,088)
Jail Fund	466,481	189,043	(277,438)
Local Government Economic Assistance Fund	310,845	314,557	3,712
<u>Special Revenue Fund Type</u>			
Industrial Authority #1 Fund	100,145	19,202	(80,943)
Special Insurance Fund	49,425	1,136	(48,289)
Road and Bridge FEMA Fund		1,327	1,327
Mountain Homeplace Economic Development Project Fund	302,414	14,867	(287,547)
Industrial Authority #2 Fund	7,357	6,174	(1,183)
<u>Debt Service Fund Type</u>			
Public Properties Courthouse Corporation Bond Sinking Fund	42,349	2,422	(39,927)
Totals	<u>\$ 5,634,157</u>	<u>\$ 3,673,370</u>	<u>\$ (1,960,787)</u>
<u>Reconciliation</u>			
Total Budgeted Operating Revenue Above			\$ 5,634,157
Less: Other Financing Uses			<u>(1,159,194)</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures			<u>\$ 4,474,963</u>

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SCHEDULE OF OPERATING REVENUE



JOHNSON COUNTY  
SCHEDULE OF OPERATING REVENUE

For The Fiscal Year Ended June 30, 2001

Revenue Categories	GOVERNMENTAL FUND TYPES			
	Totals (Memorandum Only)	General Fund Type	Special Revenue Fund Type	Debt Service Fund Type
Taxes	\$ 1,525,031	\$ 1,525,031	\$	\$
In Lieu Tax Payments	9,197	9,197		
Excess Fees	50,828	50,828		
Licenses and Permits	220	220		
Intergovernmental Revenues	1,817,441	1,817,441		
Miscellaneous Revenues	160,014	144,214	15,800	
Interest Earned	110,639	81,311	26,906	2,422
Total Operating Revenue	<u>\$ 3,673,370</u>	<u>\$ 3,628,242</u>	<u>\$ 42,706</u>	<u>\$ 2,422</u>

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COMPARATIVE SCHEDULE OF  
FINAL BUDGET AND BUDGETED EXPENDITURES



JOHNSON COUNTY  
COMPARATIVE SCHEDULE OF  
FINAL BUDGET AND BUDGETED EXPENDITURES

For The Fiscal Year Ended June 30, 2001

Expenditure Categories	GENERAL FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 1,557,363	\$ 1,381,949	\$ 175,414
Protection to Persons and Property	430,234	383,214	47,020
General Health and Sanitation	40,586	40,586	
Social Services	76,416	30,787	45,629
Recreation and Culture	35,000	10,000	25,000
Roads	1,168,028	1,233,552	(65,524)
Debt Service	140,917	96,751	44,166
Administration	524,729	491,641	33,088
Total Operating Budget - General Fund Type	\$ 3,973,273	\$ 3,668,480	\$ 304,793
Other Financing Uses:			
KARP-			
Principal	1,009,140		1,009,140
Borrowed Money-			
KIA Loan -			
Principal		5,576	(5,576)
Courthouse Annex Bond -			
Principal	19,000	19,000	
Capital Lease Agreements-			
Principal - Jail Facilities	123,758	25,382	98,376
Principal - Jail Facilities Supplemental	7,296	7,296	
Lease Purchase Agreements -			
Principal - Thelma Waste		5,000	(5,000)
Principal - Road Paving #1		35,000	(35,000)
Principal - Road Paving #2		56,000	(56,000)
TOTAL BUDGET - GENERAL FUND TYPE	<u>\$ 5,132,467</u>	<u>\$ 3,821,734</u>	<u>\$ 1,310,733</u>

JOHNSON COUNTY  
 COMPARATIVE SCHEDULE OF  
 FINAL BUDGET AND BUDGETED EXPENDITURES  
 For The Fiscal Year Ended June 30, 2001  
 (Continued)

SPECIAL REVENUE FUND TYPE			
Expenditure Categories	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$	\$ 76	\$ (76)
Administration	459,341	283,171	176,170
TOTAL BUDGET - SPECIAL REVENUE FUND TYPE	\$ 459,341	\$ 283,247	\$ 176,094

DEBT SERVICE FUND TYPE			
Expenditure Categories	Final Budget	Budgeted Expenditures	Under (Over) Budget
Administration	\$ 42,349	\$	\$ 42,349
TOTAL BUDGET - DEBT SERVICE FUND TYPE	\$ 42,349	\$ 0	\$ 42,349



SCHEDULE OF UNBUDGETED EXPENDITURES



JOHNSON COUNTY  
SCHEDULE OF UNBUDGETED EXPENDITURES

For The Fiscal Year Ended June 30, 2001

<u>Expenditure Items</u>	<u>Road and Bridge FEMA Fund</u>
Roads	<u>\$ 67,557</u>
Total	<u><u>\$ 67,557</u></u>

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Roger T. Daniel, Johnson County Judge/Executive

Members of the Johnson County Fiscal Court

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of Johnson County, Kentucky, as of and for the year ended June 30, 2001, and have issued our report thereon dated August 23, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Johnson County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The County Treasurer Did Not Present Her Settlement To The Fiscal Court Within Thirty Days
- The Fiscal Court Should Properly Record All Financial Transactions To The Ledgers
- The Fiscal Court Should Have A Written Securities Agreement With Current Banking Institution
- The Fiscal Court Should Record The Approved Budget And Budget Amendments Accurately On The 4<sup>th</sup> Quarter Report
- The Fiscal Court Should Have Budgeted The Road And Bridge FEMA Fund Before Expending Funds

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Johnson County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition.

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Johnson County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying comment and recommendation.

- Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of management and is not intended to be, and should not be, used by anyone other than the specified party.

Respectfully submitted,



Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
August 23, 2002



## COMMENTS AND RECOMMENDATIONS



JOHNSON COUNTY  
COMMENTS AND RECOMMENDATIONS

For The Fiscal Year Ended June 30, 2001

NONCOMPLIANCES

1. The County Treasurer Did Not Present Her Settlement To The Fiscal Court Within Thirty Days

The County Treasurer presented her settlement to the fiscal court fifty-one days after the close of the fiscal year. KRS 68.020 (5) states the county treasurer shall settle her accounts and within thirty days after the close of each fiscal year shall make a full and complete settlement for the preceding year. We recommend compliance with this statute in the future.

*County Judge/Executive Roger T. Daniel's Response:*

*A timely presentation will be made in the future. A delegation of duties presently has reduced the workload of the Treasurer, allowing more time in report presentation for the Court. The procedural calendar now initiated will alert the Treasurer of this filing requirement.*

2. The Fiscal Court Should Properly Record All Financial Transactions To The Ledgers

During our testing, we noted numerous errors of postings to ledgers. It is extremely important that all receipt and disbursement ledgers be properly posted and carried forward to the 4<sup>th</sup> Quarter Report. KRS 68.020(4) states the treasurer shall keep an accurate detailed account of all money received and disbursed by him for the county, and shall keep books of accounts of the financial transactions of the county in the manner required by the uniform system of accounts prescribed by the state local finance officer. Auditors made many adjustments to the financial statements. We recommend the treasurer take greater care in properly classifying and posting transactions.

*County Judge/Executive Roger T. Daniel's Response:*

*The Treasurer's expanded computerization of the County's records will eliminate the above deficiencies. Delegation of duties among other personnel is beneficial in this respect and also strengthens internal control.*

3. The Fiscal Court Should Have A Written Securities Agreement With Current Banking Institution

The Fiscal Court did not obtain a new written securities agreement with their new banking institution. During the fiscal year the original depository institution changed ownership and a new depository institution was established. Due to the change of ownership and entity name of the former bank, the prior written agreement is no longer valid. We recommend the county enter into a written agreement with the new depository institution to secure the county's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

*County Judge/Executive Roger T. Daniel's Response:*

*This procedural function is presently being completed. Our administrative procedural calendar will alert the fiscal court to update the pledge of security agreement annually.*

JOHNSON COUNTY  
 COMMENTS AND RECOMMENDATIONS  
 For The Fiscal Year Ended June 30, 2001  
 (Continued)

4. The Fiscal Court Should Record The Approved Budget And Budget Amendments Accurately  
 On The 4<sup>th</sup> Quarter Report

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Approved Budget

During our auditing procedures relating to the budget we noted the County Treasurer did not accurately record the budget approved by Fiscal Court and the Department for Local Government on the 4<sup>th</sup> Quarter Report. The 4<sup>th</sup> Quarter Report was adjusted for budgeted amounts not posted to revenues and expenditures. The results of the adjustments made to the various funds are scheduled below:

<u>Budgeted Revenues</u>	Account Number Adjusted	Adjusted Amount
Special Insurance Fund	4901	\$ 48,425
Industrial Authority #1	4901	\$ 161,770
Industrial Authority #2	4901	\$ 3,717
Courthouse Bond Fund	4901	\$ 41,401
Mountain Homeplace	4901	\$ 295,301
<u>Budgeted Expenditures</u>		
Industrial Authority #1	9200	\$ (9,783)
Special Insurance Fund	9200	\$ 49,425
Courthouse Bond Fund	9200	\$ 42,349

Budget Amendments

During our procedures relating to budget amendments, we noted the budget amendments for revenues and expenditures were not in balance on the 4<sup>th</sup> quarter report. Budget amendments must be properly posted on the 4<sup>th</sup> quarter report to determine the total budget available for expenditure from each fund. Adjustments were made to the General Fund resulting in new balances as shown in the schedule below:

<u>Budgeted Revenues</u>	Account Number Adjusted	Adjusted Amount
General Fund	4549	\$ 213,435
<u>Budgeted Expenditures</u>		
General Fund	5015	\$ 13,514

JOHNSON COUNTY  
COMMENTS AND RECOMMENDATIONS  
For The Fiscal Year Ended June 30, 2001  
(Continued)

4. The Fiscal Court Should Record The Approved Budget And Budget Amendments Accurately  
On The 4<sup>th</sup> Quarter Report (Continued)

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We recommend the Fiscal Court post correctly to the 4<sup>th</sup> quarter report the approved budget and budget amendments to ensure the proper amounts available for expenditure.

*County Judge/Executive Roger T. Daniel's Response:*

*The fiscal courts expanded computerization of the financial records will properly reflect the original approved budget, the approved budget amendments, resulting with the current working budget. This budget will be compared to the actual expenditures to show the budget remaining.*

5. The Fiscal Court Should Have Budgeted The Road And Bridge FEMA Fund Before Expending  
Funds

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The Road and Bridge FEMA Fund expended \$67,557 without an approved budget. KRS 68.300 states, "any appropriation made or claim allowed by the Fiscal Court in excess of any budget fund, and any warrant or contract not within the budget appropriation, shall be void. No member of the Fiscal Court shall vote for any such illegal appropriation. The County Treasurer shall be liable on her official bond for the amount of any county warrant willfully or negligently signed or countersigned by him in excess of the budget fund out of which the warrant is payable." We recommend the Fiscal Court Properly budget all funds to avoid noncompliance with KRS 68.300.

*County Judge/Executive Roger T. Daniel's Response:*

*Our initiated administrative calendar will alert the fiscal court of all statutory requirements. No expenditures will be approved by the fiscal court without an approved budget as required by KRS 68.300.*

REPORTABLE CONDITION

Lacks Adequate Segregation Of Duties

The Fiscal Court lacks a proper segregation of duties. To have better internal controls, it is a best practice to keep the receipt of cash, the disbursement of cash, and the posting of cash to the ledgers delegated to separate individuals. We recommend that the matching of purchase orders and check-writing duties be delegated to a qualified office employee other than the County Treasurer. This will help segregate duties of the County Treasurer.

*County Judge/Executive Roger T. Daniel's Response:*

*The Treasurer's duties have been diluted and delegated to other office employees. The expanded computerization and delegation of duties has strengthened the internal control check points.*

JOHNSON COUNTY  
COMMENTS AND RECOMMENDATIONS  
For The Fiscal Year Ended June 30, 2001  
(Continued)

PRIOR YEAR FINDINGS

- The Johnson County Fiscal Court Treasurer's Report Did Not Include All Funds  
This comment has been corrected.
- The Fiscal Court Did Not Maintain Adequate Depository Coverage The Entire Year  
This comment has been partially corrected.
- The Fiscal Court Should Not Overspend The Budget Nor Have Unbudgeted Expenditures  
This comment has been partially corrected.
- The Fiscal Court Lacks A Proper Segregation Of Duties  
This comment has not been corrected and has been repeated in the current report.

CERTIFICATION OF COMPLIANCE -  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

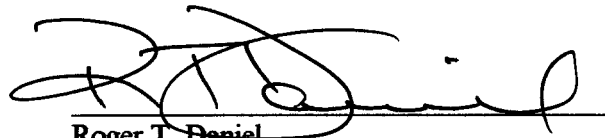
JOHNSON COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2001

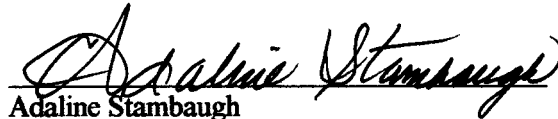
**CERTIFICATION OF COMPLIANCE**  
**LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**  
**JOHNSON COUNTY FISCAL COURT**

Fiscal Year Ended June 30, 2001

The Johnson County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

A handwritten signature in black ink, appearing to read "R. T. Daniel", written over a horizontal line.

Roger T. Daniel  
County Judge/Executive

A handwritten signature in black ink, appearing to read "Adaline Stambaugh", written over a horizontal line.

Adaline Stambaugh  
County Treasurer



